Birch Mountain Resources Ltd.

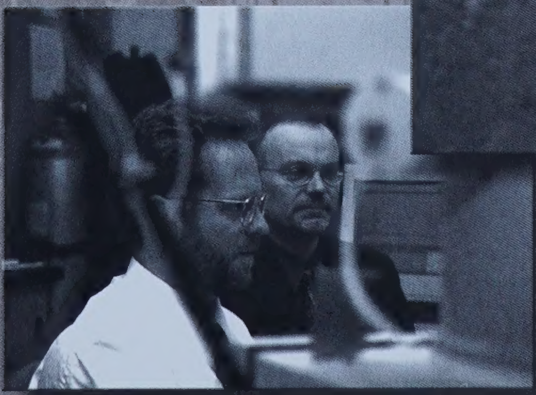
1999

Annual Report

Small Particles

Big Potential

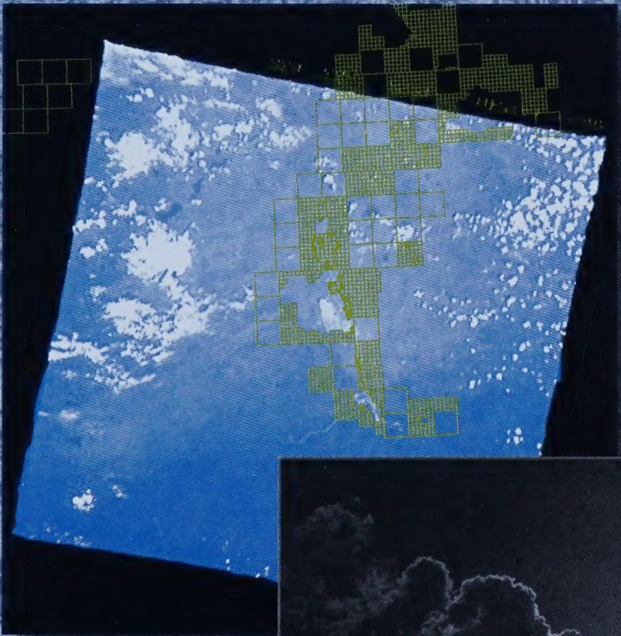
They're tiny, but we can see gold, platinum, palladium, and other precious metals. We understand how they got there. We have focused on these particles—seen here in a scanning electron microscope image—and we have advanced our quest for reliable analytical and extraction procedures. We believe that these small particles, micron to submicron in size, represent big potential value.



Superior Lands

Strategically Located

We believe that the same environment that fostered formation of the Athabasca oil sands, a 3 trillion-ton ore deposit, also created optimal conditions for the deposition of precious metals. The Company holds almost 2 million acres of land in Athabasca—seen here on a photo from the space shuttle—where co-development agreements with oil-sands miners will make our job more cost-effective.

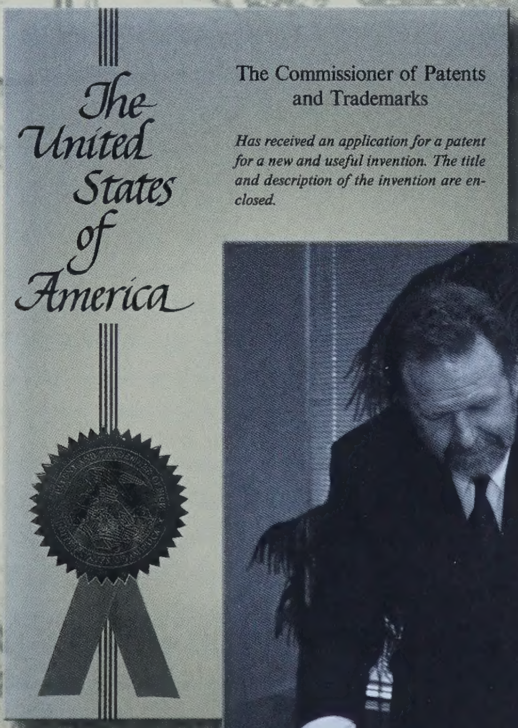


Patented Technology

New Opportunities

We have filed a patent application for an innovative technology which will move us closer to extraction of metals from Prairie Gold deposits.

This very positive result of our R&D program opens the door to worldwide potential in new mining ventures.


The United States of America

The Commissioner of Patents and Trademarks

Has received an application for a patent for a new and useful invention. The title and description of the invention are enclosed.

A Word to Our Shareholders

I am pleased to report that, in 1999, Birch Mountain made significant progress toward realizing our vision—that the Athabasca property has the potential to become one of the world's largest precious metals deposits.

Birch Mountain is a unique company, just as Athabasca is a unique deposit. As scientific entrepreneurs using leading-edge technology to develop new sources of precious minerals, the Company offers investors access to two market sectors—mining exploration and technology.

Since the Company was formed five years ago, we have spent $15 million on research and exploration. While traditional electron imaging and x-ray analysis of surface samples and drill core from our Athabasca property prove the presence of precious metals, our attempts to confirm this fact with fire assays have met with varying results. Our research effort has been to develop analytical methods to resolve these inconsistencies. The Company has made many advances over the years, but in 1999, we achieved a two-fold breakthrough:

- we discovered the nature of the mineralization at Athabasca
- we determined that the mineralization differs from conventional metallurgy

This discovery is based on the distinctly different behaviour of sub-micron sized particles of precious metals and other elements, compared with the behaviour of macro-crystalline solids in conventional mineral deposits. This dramatic breakthrough is significant—so significant that Birch Mountain has filed an application for a patent for intellectual property protection of our technology to define and recover these particles.

This dramatic
breakthrough
is significant

A patent, if granted, would benefit both sides of our business, mining and technology. The upside in mining is unlocking the wealth of our Athabasca property, where we hold the mineral rights on approximately two million acres of highly prospective land. On the technology side, the granting of a patent for our process would have applications in other parts of the world and to other elements in addition to precious metals.

Intellectual property protection continues the process of advancement that we began when we confirmed the presence of gold by electron microscope in 1994 and 1995. In 1997, we developed the Prairie Gold model to explain the unusual mineralization we discovered at Athabasca, and we have refined the model in subsequent years. The Prairie Gold model explains how precious metals were transported and deposited into the Athabasca area. We are continuing research activities in materials characterization with Ottawa's CANMET Materials Technology Laboratory, and others.

Our co-development agreements with oils sands companies operating in the Athabasca region continue to provide significant value. From these companies, we have received rock core and technical data from many hundreds of holes, that enhance our understanding of the geology and mineralization.

Today, our three primary goals, ongoing and in parallel, are to:

- obtain independent verification of the analytical protocols we are developing;
- delineate economic ore bodies;
- develop extraction processes.

We believe that our discoveries will put us at the forefront of a new paradigm in mining and materials technology.

We have engaged Strathcona Mineral Services to assist with verification of our analytical protocols. When this is complete, we intend to assay the many hundreds of archived rock and drill core samples that show evidence of alteration. This round of assaying will be followed by a drill program to begin the task of delineating a geological resource. With the assistance of Pincock Allen & Holt, we are developing economic models and preparing internal scoping economics to evaluate the potential of successful discoveries on our Athabasca property.

Market confidence in Birch Mountain has enabled us to raise approximately $20 million over the last five years, more than $7 million of this during the last 18 months. We accomplished this in a difficult market with minimum dilution to shareholders. Our market capitalization has increased dramatically from $6 million in 1995. Clearly, the marketplace recognizes that Birch Mountain is more than a mining exploration company, as the change in our share price bears little or no relationship to the price of gold, or to the share price of other junior precious metal exploration companies.

A CDNX

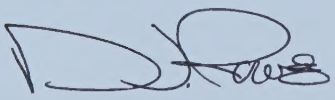
Tier 1

Company

In recognition of our performance and financial strength, the new Canadian Venture Exchange has listed Birch Mountain as a Tier 1 company. The CDNX characterizes Tier 1 as "...the Exchange's premier tier, and is reserved for the Exchange's most advanced issuers," a classification applicable to only fifteen percent of its listed companies.

None of this would have been possible without the scientific, intellectual, and technical competence of our staff. This team of 10 people, along with consultants and a dedicated board of directors, is further evidence that big potential value can be achieved with the right entrepreneurial group. I would also like to acknowledge the shareholders who recognized Birch Mountain's potential early in our corporate life, and welcome our new shareholders who recognize the opportunities that lie ahead.

Birch Mountain has a clear vision, a significant breakthrough in technology, and defined goals for the next steps in the Company's growth. We have retained the corporate finance group of Legg Mason Wood Walker, Inc. of Philadelphia to assist us with refining and implementing the best strategy to capitalize on our tremendous opportunities. With their assistance, I am confident that our small particles of precious metals have the potential to be transformed into big value for Birch Mountain's shareholders.



Douglas J. Rowe, P.Eng.
President & CEO

Management's Discussion & Analysis

Management's Discussion and Analysis describes Birch Mountain's operating and financial results for the year ended December 31, 1999.

Capital Programs

The Company spent $570,000 on research and exploration (net $470,000 after Manitoba refunds) in 1999. We have focused our research and exploration programs on Birch Mountain's two major Prairie Gold prospects, directing 82% of our 1999 capital to our Athabasca project, and the balance to our Dawson Bay play. There were no funds spent on the diamond joint venture with Tahera Corporation in 1999 and, as a subsequent event, the joint venture agreement negotiated in January 1998 has terminated, and Tahera has not earned an interest in the land.

General and Administrative Expenses

The general and administrative cash expenses in 1999 were $790,000, compared with $670,000 in 1998. The higher expenses in 1999 reflected the increase in laboratory work, and in industry activities associated with our co-development agreements with major oil sands producers in Athabasca.

Liquidity

At December 31, 1999, working capital was approximately $700,000. The Company completed private placement financings in April and November, for an aggregate net revenue of $1.7 million. Early in 2000, a private placement was completed for an additional $2.7 million. While Birch Mountain has been successful in raising funds, we believe junior resource companies will continue to have difficulty financing new issues in 2000. As a result, the Company will remain prudent and cautious, preserving our working capital by conducting selective field programs and value-adding laboratory work, as well as minimizing general and administrative costs.

Financing

On April 1, 1999, the Company completed a non-brokered private placement consisting of 2,900,000 units under which 1,450,000 common shares were issued with attached flow through benefits, and 1,450,000 were issued without flow through benefits. Each unit was priced at $0.36, and consisted of one common share and one-half common share purchase warrant. Each common share purchase warrant entitled the holder to purchase one common share at an exercise price of $1.00 per common share on or before April 12, 2000.

In November 1999, Birch Mountain completed a second non-brokered private placement consisting of 491,305 units. Each unit was priced at $1.15, and comprised one common share and one-half common share purchase warrant, under which 40,000 common shares were issued with attached flow through benefits. Each common share purchase warrant entitled the holder to purchase one common share at an exercise price of $1.50 per common share on or before November 10, 2000.

During the year, employees, consultants, and directors of the Company exercised an aggregate of 257,400 stock options pursuant to Birch Mountain's stock option plan.

About 18% of the 217,000 shares of Tahera Corporation (formerly Lytton Minerals Ltd.) owned by Birch Mountain were sold for proceeds of $8,890.

The Company received a refund of the Seriousness Bond, plus interest, in the amount of $212,629 from the Federal Republic of Indonesia.

Fort McKay Property Agreement

Birch Mountain advised Tintina Mines Limited and NSR Resources Inc. early in September that the Company would not exercise the Fort McKay Property Agreement that expired on September 18, 1999. Subsequently, the Company negotiated the purchase of a 100% interest in the same Metallic and Industrial Mineral Leases covering the 2,300 hectare (5,681 acre) property on the Athabasca River north of Fort McMurray for 600,000 common shares of Birch Mountain. The acquisition closed on February 15, 2000.

Co-Development Agreements

Birch Mountain has had co-development agreements with Syncrude Canada Ltd., Suncor Energy Inc., and Shell Canada Limited for several years. These agreements provide for cooperative regulatory, exploration, development, and production activities on lands where these companies hold the oil sands rights, and Birch Mountain holds the metallic and industrial mineral rights. These agreements formalize the working relationship between Birch Mountain and the oil sands operators to facilitate development of the resource potential in the Athabasca region. Data exchange with these companies has been very beneficial to Birch Mountain, as Syncrude and Suncor have provided drill core and electronic log information from several hundred drill holes.

Land Holdings

Our corporate strategy is to acquire extensive land holdings in areas that have high potential for large tonnage accumulation of precious metals. The majority of the Company's land holdings in Alberta and Manitoba are Prairie Gold prospects.

Project (at December 31, 1999)	**hectares**	**acres**
Athabasca	791,631	1,956,162
Birch Mountains	82,944	204,959
Caribou Mountains	175,104	432,691
Dawson Bay, Manitoba	92,225	227,893
Total	**1,141,904**	**2,821,705**

Birch Mountain maintains a 100% interest in most of our exploration land holdings. As the Athabasca area is home to some of the largest oil sands mines in the world, there is a tremendous infrastructure that could support the mining industry as well. Our land in Athabasca lies beneath virtually all of the proposed commercial sites for large oil sands mines, and we hold overlapping mineral interests on land for which new oil sands projects totalling more than $30 billion have been announced over the past three years.

Subsequent to year-end 1999, we acquired an additional 2,300 hectares (5,681 acres) of mineral leases in the Athabasca Valley from Tintina Mines Limited and NSR Resources Inc.

On April 28, 2000, Birch Mountain filed an assessment report with the Alberta government which will hold all of our land in the Birch Mountains and Athabasca for two more years, except for 27,648 hectares (68,291 acres) along the Clearwater River that were turned back in January 2000, as they were no longer considered prospective. An assessment filing for the Caribou Mountains property is due later in the year, and a decision on holding these lands will be subject, in part, to the Company's ability to find a joint venture partner interested in the diamond potential of the property.

On our core land, Birch Mountain has begun converting our exploration permits to Metallic and Industrial Mineral Leases. At the time of this report, applications for converting 45,865 hectares (113,355 acres) into leases have been filed with the Alberta Government.

A joint exploration program with the Geological Services division of Manitoba Energy and Mines began in 1999 near Dawson Bay, on Special Exploration Permit 96-1. The assessment report was accepted in January 2000, and the exploration permit is now valid until February 11, 2003. In the spring of 1999, the Company acquired two additional Special Exploration Permits near Dawson Bay, increasing our land holdings in this area by approximately 77,100 hectares (190,437 acres). Assessment reports will be filed on these Special Exploration Permits in April 2000. With the financial assistance of the Manitoba Exploration Assistance Program, we have begun a high-resolution aeromagnetic survey of our three Special Exploration Permits.

The company no longer has interests in land in the Yukon Territory or in Indonesia.

The New Canadian Venture Exchange

On November 29, 1999, the Alberta and Vancouver Stock Exchanges were amalgamated to form a new and larger exchange called the Canadian Venture Exchange (CDNX). Birch Mountain Resources Ltd. was listed on the new exchange as a Tier 1 company, and retained the symbol BMD. The CDNX characterizes Tier 1 companies as "...the Exchange's premier tier, and is reserved for the Exchange's most advanced issuers with the most significant financial resources. Tier 1 issuers benefit from decreased filing requirements and improved service standards." About 15% of the companies on the CDNX are in this top tier.

Special Places 2000

Certain lands in northeastern Alberta are subject to nomination for preservation under the Special Places 2000 initiative of the Alberta Government. The government has committed to "honour all existing dispositions," which means that the Company's land will not be impaired. Until enabling legislation is passed, and the process for honouring existing dispositions is defined, there is some risk that land nominated under the Special Places 2000 initiative may not be developed for mineral production. However, none of Birch Mountain's core land is subject to a Special Places 2000 nomination.

Corporate Organization

Dawson Bay Minerals Inc. is a wholly owned subsidiary of Birch Mountain Resources Ltd., and was incorporated to hold the Special Exploration Permits in the Province of Manitoba.

Danfort Development Limited is owned by Rockyview Development Ltd., which in turn is a wholly owned subsidiary of Birch Mountain Resources Ltd. Rockyview Development and Danfort Development are registered and in good standing in the British Virgin Islands.

Safety, Health, and Environmental Management

Birch Mountain has implemented a formal policy with respect to the safety, health, and environmental aspects of our business activities. The Board of Directors receives reports on safety, health, and environment from management at each Board meeting.

Year 2000 (Y2K) Risk

The Y2K risk involves the potential for operations to be disrupted by the failure of computer systems that were not designed to function using Year 2000 dates. The Company has not had any Y2K problems, nor identified any risk to our operations, and expenditures in this area have been minimal.

Outlook

We are very pleased with the progress of the past year. 2000 began with the completion of a private placement financing and the exercise of warrants that put Birch Mountain on a solid financial basis, with the funds to conduct the technology development and exploration programs planned for this year.

Our research and development program has resulted in a breakthrough in our understanding of the underlying physics and chemistry of the minerals contained in rocks from our Athabasca property. This understanding enables us to design specific analytical and extraction processes that address certain characteristics of the mineralization that appear to have caused inconsistent results in the past.

With the high level of activity in our laboratory, and a multidisciplinary group of expert consultants, we anticipate rapid progress toward realizing our vision—that our Athabasca property has the potential to become one of the world's largest precious metals deposits.

Management's Responsibility for Financial Statements

Management is responsible for all information contained in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), and include amounts based on management's informed judgments and estimates. The financial and operating information included in this annual report is consistent with that contained in the consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate, and that assets are safeguarded.

External auditors appointed by the shareholders have independently examined the consolidated financial statements, and performed the tests deemed necessary to enable them to express an opinion on these consolidated financial statements.

The Audit Committee has reviewed the consolidated financial statements with management and the auditors. The Board of Directors has approved the consolidated financial statements, on the recommendation of the Audit Committee.

Donald L. Dabbs
CFO & Director

Auditors' Report to Shareholders

We have audited the consolidated balance sheets of Birch Mountain Resources Ltd. as at December 31, 1999 and 1998, and the consolidated statements of loss and deficit and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1999 and 1998, and the results of its operations and changes in its cash flow for the years then ended, in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Calgary, Alberta
March 13, 2000

Consolidated Balance Sheets

At December 31

	1999	1998
Assets		
Current		
Cash and term deposits (note 5)	**$ 943,558**	$ 475,188
Accounts receivable	**36,384**	142,057
Prepaids and deposits	**12,691**	191,410
	992,633	808,655
Investments (note 6)	**15,930**	36,890
Capital (note 7)	**144,674**	146,714
Mineral exploration costs (note 8)	**7,828,506**	7,195,948
	$ 8,981,743	$ 8,188,207
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	**$ 324,727**	$ 536,223
Shareholders' Equity		
Share capital (note 9)	**18,654,561**	17,073,832
Deficit	**(9,997,545)**	(9,421,848)
	8,657,016	7,651,984
	$ 8,981,743	$ 8,188,207

Approved on behalf of the Board of Directors

Director *Director*

Consolidated Statements of Loss & Deficit

Years ended December 31

	1999	1998
Expenses:		
Salaries, management fees, and benefits	**$ 289,432**	$ 227,080
Shareholder services and promotion	**222,769**	132,844
Office	**162,197**	176,104
Professional fees	**120,811**	131,085
Amortization	**40,478**	70,258
Loss before the following	**835,687**	737,371
Interest and other income	**(71,096)**	(38,316)
(Gain) loss on disposal of investment	**(2,090)**	105,000
Write-down of investments	**14,160**	143,220
Write-down of mineral exploration costs (note 8)	**25,836**	2,269,821
	(33,190)	2,479,725
Loss before income taxes	**802,497**	3,217,096
Future income tax recovery	**(226,800)**	(326,727)
Net loss for the year	**575,697**	2,890,369
Deficit at beginning of year	**9,421,848**	6,531,479
Deficit at end of year	**$ 9,997,545**	$ 9,421,848
Loss per share (note 10)	**$(0.02)**	$(0.13)

Consolidated Statements of Cash Flow

Years ended December 31

	1999	1998
Cash flows from operating activities:		
Cash received from interest	**$ 71,096**	$ 38,316
Cash received from deposit with the government of Indonesia	**175,555**	165,708
Cash paid to employees and suppliers	**(774,537)**	(796,087)
	(527,886)	(592,063)
Financing activities:		
Issuance of common shares for cash	**1,656,061**	573,893
Share issuance costs	**(34,594)**	(13,061)
	1,621,467	560,832
Investing activities:		
Proceeds on disposal of investment	**8,890**	25,000
Purchase of capital assets	**(38,438)**	(1,549)
Mineral exploration costs	**(595,663)**	(236,348)
	(625,211)	(212,897)
Increase (decrease) in cash	**468,370**	(244,128)
Cash at beginning of year	**475,188**	719,316
Cash at end of year	**$ 943,558**	$ 475,188

Notes to the Consolidated Financial Statements

1. Nature of operations and going concern considerations

Birch Mountain Resources Ltd. is in the process of exploring its mineral properties, and has not yet determined whether the properties contain economically recoverable reserves. The Company's ability to continue as a going concern is largely dependent on its success in obtaining sufficient funds to carry out exploration activities on its mining claims, preserving its interest in the underlying mineral claims, establishing the existence of economically recoverable reserves, and obtaining the financing to complete development and achieve future profitable production, or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. It is not possible to predict whether financing efforts will be successful, or if the Company will attain profitable levels of operation.

2. Significant accounting policies

The consolidated financial statements are expressed in Canadian dollars, and are prepared in accordance with accounting principles generally accepted in Canada. These financial statements include the accounts of the Company and its wholly owned subsidiaries, Dawson Bay Minerals Inc., Swift River Minerals Ltd., 777195 Alberta Inc., 846785 Alberta Ltd., and Rockyview Development Limited and its subsidiaries.

a) Mineral exploration costs

The mineral properties are recorded at cost. Cost includes cash consideration and the market value of shares issued, if any. All direct and indirect acquisition and exploration expenditures are capitalized and deferred until the properties to which they relate are placed on production, sold, allowed to lapse, or abandoned. These costs will be amortized over the estimated useful lives of the properties following the commencement of production, or written off if the properties are sold, allowed to lapse, or abandoned. The Company assesses the carrying value of these mineral exploration costs annually and, based on estimates, adjusts the carrying amount for any impairment in value.

Properties acquired under option or joint venture agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

b) Capital assets

Capital assets are recorded at cost. Amortization is recorded at the following annual rates.

Equipment	20–30% declining balance
Computer software	100% declining balance
Computer hardware	30% declining balance
Automotive	30% declining balance
Leasehold improvements	20% straight line

Amortization is charged at one-half of the annual rate in the year of acquisition of an asset.

c) Future income taxes

The Company has adopted the liability method of accounting for income taxes (Note 3). Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences—the difference between the carrying amount of an asset or liability in the consolidated balance sheet and its tax basis—at the rate enacted at the date of the balance sheet. At the end of each year, future tax assets and future tax liabilities are reassessed, and any changes in the settlement value are reflected in income.

d) Stock options

No compensation expense is recognized when stock options are issued to employees, service providers, or directors. Any consideration paid by the optionee on the exercise of stock options is credited to share capital.

e) Cash

Cash includes cash on account and demand deposits.

f) Flow through shares

Under Canadian income tax legislation, corporations are permitted to issue shares whereby the Company agrees to incur qualifying expenditures, as defined under the Canadian Income Tax Act, and renounce the related income tax deductions to investors. Share capital is reduced by the estimated future income tax cost of the renounced deductions, as expenditures are incurred.

g) Use of estimates

The preparation of financial statements in conformity with generally acceptable accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral exploration costs and reclamation obligations. Financial results as determined by actual events could differ from those estimates.

3. Change in accounting policy

a) During the year, the Company changed its method of accounting for income taxes from the deferral method to the liability method described in Note 2. This policy has been adopted retroactively, resulting in the restatement of the December 31, 1998 financial statements as follows.

At December 31, 1998	As Reported	Adjustment	Restated
Mineral exploration costs	**$ 5,522,268**	$1,673,680	**$ 7,195,948**
Share capital	**16,562,977**	510,855	**17,073,832**
Deficit	**(10,584,673)**	1,162,825	**(9,421,848)**
Future income tax recovery	–	326,727	**326,727**
Net loss for the year	**$ (3,217,096)**	$ 326,727	**$ (2,890,369)**
Net earnings per common share:			
Basic	**$(0.14)**	$0.01	**$(0.13)**
Fully diluted	**$(0.14)**	$0.01	**$(0.13)**

b) The Company has retroactively adopted the new CICA Handbook recommendations *Cash Flow Statements.* Under this section, transactions that do not require the use of cash and cash equivalents are excluded from the statements of cash flow. Non-cash transactions excluded from the statements of cash flow for the years ended December 31, 1999 and 1998 are as follows.

- Payment of employee salary with shares: $15,000 (1998—$15,000).
- Purchase of mineral rights with shares: $43,500 (1998—$465,920).

4. Acquisitions

During 1999, the Company acquired all of the outstanding shares of 846785 Alberta Ltd., which held a royalty interest and mineral leases. The cost of the acquisition, which was accounted for using the purchase method, consisted of 25,000 common shares of the Company. The purchase price of $28,500 has been allocated to mineral exploration costs.

During 1998, the Company acquired all of the outstanding shares of 777195 Alberta Inc., which held certain mineral rights in the Athabasca region. The cost of the acquisition, which was accounted for using the purchase method, consisted of $25,000 cash and 770,000 common shares of the Company. The purchase price of $456,200 has been allocated to mineral exploration costs.

Both 846785 Alberta Ltd. and 777195 Alberta Inc. were dissolved during the year ended December 31, 1999.

5. Cash

	1999	**1998**
Cash available for use	**$890,558**	$456,188
Cash subject to restriction	**53,000**	19,000
	$943,558	$475,188

Cash subject to restriction represents amounts on deposit as security for letters of credit to the governments of Alberta and Manitoba.

6. Investments

	1999	**1998**
Tahera Corporation	**$ 15,930**	$ 36,890
	$943,558	$475,188

The cost of the Company's investment in 177,000 shares of Tahera Corporation, formerly Lytton Minerals Limited, has been written down to reflect its market value at December 31, 1999. During 1999, the Company disposed of 40,000 shares, for net proceeds of $8,890.

7. Capital assets

	1999		1998	
	Cost	Net Book Value	Cost	Net Book Value
Equipment	$182,672	$ 91,292	$154,518	$ 82,074
Computer	179,914	44,549	169,629	52,136
Automotive	34,090	8,185	34,090	11,693
Leasehold improvements	1,583	648	1,583	811
	$398,259	$144,674	$359,820	$146,714

8. Mineral exploration costs

	Balance, 31 Dec 1998	Additions During Year	Write-down During Year	Balance, 31 Dec 1999
Alberta	$7,104,740	$ 613,983	$ 3,619	$7,715,104
Yukon	1	2,028	2,028	1
Manitoba	91,207	22,194	–	113,401
Indonesia	–	20,189	20,189	–
	$7,195,948	$ 658,394	$ 25,836	$7,828,506

	Balance, 31 Dec 1997	Additions During Year	Write-down During Year	Balance, 31 Dec 1998
Alberta	$6,654,914	$ 467,115	$ 17,289	$7,104,740
Saskatchewan	–	34,057	34,057	–
Yukon	1,328,191	173,854	1,502,044	1
Manitoba	72,226	18,981	–	91,207
Indonesia	500,000	216,431	716,431	–
	$8,555,331	$ 910,438	$2,269,821	$7,195,948

Included in mineral exploration costs are properties having a book value of approximately $2,449,500 (1998—$2,406,000), which have no cost base for tax purposes.

a) Alberta

The Company holds significant mineral rights interests in the Athabasca region of northern Alberta.

During 1997, the Company entered into an option agreement to earn a 51% interest in additional lands in the region with a payment of $1,200,000 on or before September 18, 1999. The option was not exercised.

The Company is party to Co-Development Agreements with Syncrude Canada Ltd., Suncor Energy Inc., and Shell Canada Limited. The agreements provide for a cooperative development of the lands by bringing together the holder of the oil sands rights and the holder of the metallic and industrial mineral rights.

During 1998, the Company entered into various agreements with Tahera Corporation (formerly Lytton Minerals Limited) involving certain exploration data and diamond rights in the area. Under the agreements, the Company received $390,000 for the sale of the exploration data, and 217,000 shares of Tahera Corporation for the option

granted for the diamond rights. The interest that could be earned by Tahera ranged from 30% to 75%, dependent on the level of exploration expenditure. Tahera did not meet spending requirements, so the Company retains its interests in these lands.

During 1998 and 1999, the Company acquired additional mineral rights in the area through the issue of shares.

Certain lands in the Caribou Mountains and Marguerite River area are subject to nomination for preservation under the Special Places 2000 initiative of the Alberta Government. The Government has made commitments to honour current holdings; however, there is some risk that certain lands will not be available for development. At the current time, none of the Company's core holdings are subject to Special Places 2000 nomination.

The Company has filed an assessment report with the authorities which management believes will satisfy the Company's exploration commitment to date. The Company has been granted an extension on the next filing of assessment to April 2000. Management believes spending requirements have been sufficient to hold all Alberta lands until April 2002.

Subsequent to the year-end, the Company:

- purchased certain mineral rights from Tintina Mines Limited and NSR Resources Inc. Consideration consisted of 600,000 shares.
- began converting certain mineral permits in its core holdings to mineral leases. The conversion strengthens the Company's land tenure.

b) Saskatchewan

Certain property in Saskatchewan was acquired during 1998. Related costs have been written off, as the Company has no plans to continue activity in this area.

c) The Yukon

The Company did not exercise its option to purchase a 100% interest in the Swift River Property in the Yukon, and has accordingly written off costs related to this project. Birch Mountain maintains certain mineral rights in the area, because expenditure requirements have been met.

d) Manitoba

The Company's exploration activity in Manitoba is in the Dawson Bay area. Subsequent to the year-end, the Company entered into an agreement with the Government of Manitoba whereby 25% of expenditures on Birch Mountain's property, to a maximum of $28,000, will be reimbursed.

e) Indonesia

Through its subsidiaries, the Company was paying 100% of the costs to earn a 90% interest in an exploration program in the province of West Kalimantan, Republic of Indonesia.

During 1998, the Company advised the Government of Indonesia and its joint venture partner that it intended to relinquish its Contract of Work on these properties and, accordingly, the remaining mineral exploration costs related to this project were written off.

These financial statements include accounts payable of $194,000 (1998—$246,500) relating to the estimated cost of discontinuing Indonesian operations, and deposits of *$nil* (1998—$175,000) with the government of Indonesia.

9. Share capital

The Company is incorporated under the jurisdiction of the *Business Corporations Act of Alberta.*

a) Authorized capital:

- unlimited number of common voting shares
- unlimited number of preferred shares, issuable in series
- unlimited number of non-voting shares

b) Issued

Common Shares	Number	Amount
Balance at December 31, 1997	**22,168,422**	**$16,170,252**
Issued for cash:		
Common shares	204,074	142,852
Flow through shares net of tax benefits renounced of $128,999	1,172,860	281,502
Stock options exercised	47,000	5,540
Issued in lieu of salary	65,217	15,000
Issued for mineral rights	829,500	465,920
	24,487,073	17,081,832
Share issuance costs net of tax benefit of $5,828	–	(7,234)
Balance at December 31, 1998	**24,487,073**	**$17,073,832**
Issued for cash:		
Common shares	1,901,305	1,041,001
Flow through common shares net of tax benefits renounced of $223,009	1,490,000	344,990
Stock options exercised	257,400	129,006
Warrants exercised	26,389	26,389
Issued in lieu of salary	65,217	15,000
Issued for mineral rights	62,500	43,500
	28,289,884	18,673,718
Share issuance costs net of tax benefit of $15,436	–	(19,157)
Balance at December 31, 1999	**28,289,884**	**$18,654,561**

During 1999, the Company completed private placements of:

- 2,900,000 units at $0.36, of which 1,450,000 were flow through units. Each unit consisted of one common share and one-half common share warrant.
- 491,305 units at $1.15, of which 40,000 were flow through units. Each unit consisted of one common share and one-half common share warrant.

At December 31, 1999, the Company had incurred and renounced approximately $378,000 of its commitment of $568,000. The Company renounced an additional $254,000 at February 28, 2000.

During 1998, the Company completed private placements of:

- 204,074 units at $0.70 per unit. Each unit consisted of one common share and one common share purchase warrant.
- 1,172,860 flow through units at $0.35 per unit. Each unit consisted of one common share and one-half common share warrant.

At December 31, 1998, the Company had incurred and renounced approximately $289,000 of its obligation; the remainder was incurred and renounced during 1999.

The Company entered into an agreement with a management employee whereby a portion of salary would be paid through the issuance of common shares. The agreement resulted in the issuance of 130,434 common shares at $0.23 per share for a six-month period expiring March 31, 1999.

Subsequent to the year-end, the Company completed a private placement of 2,345,691 units at $1.15, of which 1,160,000 were flow through units, for gross proceeds of $2,697,546. Each unit consists of one common share and one-half common share warrant. In addition, a commission of 25,000 units amounting to $28,750 was paid in relation to this private placement.

c) Preferred shares
An unlimited number of preferred shares may be issued in one or more series, and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, and conditions attached to the shares of each series.

d) Reserved for issue
Options:
The Company has a stock option plan under which the board of directors can grant options to purchase common shares to senior employees, consultants, and directors.

The Company has granted options on common shares as follows:

	Number of Options	**Price Range**	**Weighted Average Price**	**Expiry Date**
December 31, 1997	2,013,000	.10–1.06	.73	1999–2003
Granted	960,000	.22–.35	.30	2003
Exercised	(47,000)	.10–.22	.12	1999–2003
Cancelled	(728,000)	.38–1.06	.77	2000–2001
December 31, 1998	2,198,000	.22–1.06	.54	2000–2004
Granted	880,000	.22–1.06	1.36	2000–2004
Exercised	(257,400)	.22–.70	.50	2000–2003
Cancelled	(25,000)	.70	.70	2002
December 31, 1999	**2,795,600**	**.22–1.06**	**.80**	**2000–2004**

During 1998, certain options originally granted at prices ranging from $1.55 to $2.75 were repriced at $0.70.

Warrants:

In relation to private placements, the Company has these warrants outstanding.

	Number of Options	Price Range	Weighted Average Price	Expiry Date
December 31, 1997	1,676,000	6.60	6.60	1998
Issued	790,504	1.00	1.00	1998–1999
Expired	(1,880,074)	1.00–6.60	5.99	
December 31, 1998	586,430	1.00	1.00	1999
Issued	1,695,653	1.00–1.50	1.07	2000
Exercised	(26,389)	1.00	1.00	2000
Expired	(586,430)	1.00	1.00	
December 31, 1999	**1,669,264**	**1.00–1.50**	**1.07**	**2000**

e) Escrowed shares

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 12,483,040 common shares issued in connection with the Company's initial listing as a Junior Capital Pool Corporation, its major transaction, and its initial public offering were held in escrow. At December 31, 1998, all of these shares have been released from escrow.

Under the terms of a voluntary pooling agreement, an additional 8,528,366 common shares were placed in escrow, to be released equally over five years. The 3,411,348 common shares remaining in escrow will be released over the next two years.

10. Loss per common share

The net loss per common share was calculated using the weighted average number of common shares outstanding of 26,681,000 shares (1998—22,934,000 shares). The effect of the stock options and warrants on the loss per share is anti-dilutive.

11. Continuing obligations

The Company rents premises and equipment under operating leases requiring annual payments over the next five years as follows.

2000	$212,238
2001	$212,238
2002	$212,238
2003	$212,238
2004	$ 11,704

12. Related party transactions

During the year, the Company had the following transactions with related parties.

- Included in mineral exploration costs are amounts paid for aircraft usage and airborne surveying services of $78,000 (1998—$33,000), to a company controlled by a director.
- Included in salaries, management fees, and benefits are management fees aggregating $2,400 (1998—$8,817), which were paid to companies employing the services of a director.

13. Income taxes

Future income tax assets consist of the following temporary differences.

	1999	1998
Mineral exploration costs	$ 744,855	$ 717,165
Capital assets	117,689	99,628
Scientific research and development expenditures	94,471	94,471
Loss carry-forwards	662,389	579,661
Share issuance costs	79,473	141,134
Valuation allowance	(1,698,877)	(1,632,059)
	$ –	$ –

At December 31, 1999, the Company has the following deductions available which have been reflected in the financial statements:

- Canadian mining exploration costs and undepreciated capital cost allowance of $9.3 million (1998—$9.0 million), which may be carried forward indefinitely
- scientific research and development costs of $211,000 (1998—$211,000), which may be carried forward indefinitely

In addition to the above, the Company has the following deductions available which have not been reflected in the financial statements:

- capital losses of $680,000 which may be carried forward indefinitely
- investment tax credits of $38,000 available for carry-forward to 2005

The income tax recovery differs from the amount that would be expected by applying the current tax rates for the following reasons.

	1999	1998
Loss before taxes	**$802,497**	**$3,217,096**
Expected tax recovery at 44.62%	$ 358,074	$1,435,468
Tax effect of expenses not deductible for tax purposes		
Meals and other	(7,241)	(3,361)
Non-deductible portion of capital gain	(233)	(11,713)
Non-deductible portion of investment write down	(1,580)	(15,976)
Resource allowance	(62,045)	(58,181)
Share issuance costs	77,096	74,896
Losses of foreign subsidiaries	(9,008)	(321,965)
Valuation allowance	(128,263)	(772,441)
Future Income Tax Recovery	**$226,800**	**$ 326,727**

14. Segmented information

The Company's principal business segment is the acquisition, exploration, and development of mineral properties. All of the Company's properties are in the exploration stage. The Company's activities are focused in western Canada, as detailed in Note 8.

15. Financial instruments

The Company's financial instruments include cash, accounts receivable, investments, and accounts payable. There is no material differences between their fair values and carrying values at the balance sheet date.

16. Uncertainty due to Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in systems which use dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, have been fully resolved.

17. Material differences between Canadian and United States generally accepted accounting principles

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principals (GAAP) in Canada. Significant differences between GAAP in Canada and the United States that would have an effect on these consolidated financial statements are as follows:

a) Mineral exploration costs

Mineral exploration costs are accounted for in accordance with Canadian GAAP, as discussed in Note 2. For US GAAP purposes, the Company expenses exploration costs relating to unproven mineral properties as incurred.

For US GAAP cash flow statement purposes, mineral exploration costs would be shown under operating activities rather than under investing activities.

If these consolidated financial statements were prepared in accordance with US GAAP, the impact on the balance sheets would be as follows.

	1999	1998
Mineral exploration costs under Canadian GAAP	$ 7,828,506	$ 7,195,948
Exploration expenditures	4,057,346	3,468,287
Mineral exploration costs under US GAAP	$ 3,771,160	$ 3,727,661

Deficit under Canadian GAAP	$ 9,997,545	$ 9,421,848
Exploration expenditures	4,057,346	3,468,287
Deficit under US GAAP	$14,054,891	$12,890,135

In addition, the impact on the consolidated statements of loss would be as follows.

	1999	1998
Net loss for the year under Canadian GAAP	$ 575,697	$2,890,369
Exploration expenditures	589,054	541,008
Net loss for the year under US GAAP	$1,164,751	$3,431,377
Loss per common share under US GAAP	$0.04	$0.15

b) Other US GAAP issues

- The Company has adopted APB Opinion No. 25, *Accounting for Stock Issued and Employees* ("APB 25"), to account for stock-based compensation to employees and directors, using the intrinsic value-based method whereby compensation cost is recorded for any excess of the quoted market price at the date granted. As at December 31, 1999, no compensation cost has been recorded for any period under this method.

  The Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), issued in October 1995, requires the use of the fair value-based method of accounting for stock options. Under this method, compensation cost is measured at the date of grant, based on the fair value of options granted, and is recognized over the vesting period.

  SFAS 123, however, allows the Company to continue to measure the compensation cost of employees and directors in accordance with APB 25, providing pro forma disclosure is included as if the fair value-based method had been adopted. Additional compensation costs of approximately $371,407 and $277,608 would have been recorded, increasing the loss per share by $0.02 and $0.01 for 1999 and 1998, respectively. These amounts were calculated in accordance with the Black-Scholes option pricing model, assuming no dividends are to be paid, vesting occurring on the expiration of the grant, volatility of 37%, 20%, 60%, 158%, and 136% for years 1999 to 1995, respectively, and an annual risk-free rate of 5%.

- Escrowed shares would be considered a separate compensatory arrangement between the Company and the holder of the shares. Accordingly, the fair market value of the shares at the time the shares are released from escrow would be recognized as a charge to income in that year, with a corresponding increase in share capital. Additional compensation costs of approximately $2,217,375 and $2,234,200 would have been recorded, increasing the loss per share by $0.08 and $0.09 for 1999 and 1998, respectively.

Officers, Directors, Staff, and Consultants

Officers & Directors

Douglas J. Rowe, P.Eng.
President and CEO
Calgary, Alberta

Co-founder of Birch Mountain Resources, Doug has been President and CEO since the formation of the Company. He founded Brougham Geoquest Ltd. in 1984, and has developed innovative exploration technology for oil, gas, and minerals. Doug is a member of the compensation committee.

Kerry E. Sully, P.Eng.
President, CGX Energy Inc.
Vancouver, British Columbia

Former President, CEO, and Director of Ranchmen's Resources Ltd., Kerry has more than 25 years of oil and gas experience. He was also Vice President of Corporate Development for Total Energold, a gold mining company in British Columbia. Kerry is Chairman of the Board of Birch Mountain, and a member of both the audit and compensation committees.

Donald L. Dabbs, M.Sc., P.Ag.
Vice President and CFO
Calgary, Alberta

Co-founder of Birch Mountain Resources, Don has over 25 years of consulting experience in environmental management and regulatory applications to provincial and federal governments. He has consulted to major resource developments in western and northern Canada, including those in the Athabasca oil sands. Don is a member of the audit committee.

Myron A. Goldstein, Ph.D.
Independent Mining Consultant
Denver, Colorado

With more than 35 years of acquisition, exploration, and development experience in precious and base metals, Myron has held many positions in several international mining companies, including Coeur D'Alene Mines and Lac Minerals. He has mining experience in North and South America, Africa, and Asia.

Lanny K. McDonald
Hockey Hall of Fame
VP, Corporate Development
Calgary Flames Hockey Club
Calgary, Alberta

In 1990, after more than 16 years of National Hockey League play, Lanny joined the Calgary Flames as Vice President. Lanny is chairman of the compensation committee, and a member of the audit committee.

John Houghton, LLB.
Corporate Secretary

John has been engaged in the practice of law for 20 years, and is a partner in the firm Donahue and Partners in Calgary. His practice relates primarily to the identification and resolution of business matters for a variety of public and senior private corporations. He is Past Chairman of the National Business Law Section for the Canadian Bar Association and the Business Law Subsection of Alberta for the Law Society of Alberta.

Staff

Hugh J. Abercrombie, Ph.D.
Vice President, Exploration

Before joining Birch Mountain in 1997, Hugh worked with the Geological Survey of Canada, where he studied fluid migration and the deposition of gold and precious metals in sedimentary basins. Hugh has over 20 years of experience in geology, geochemistry, and mineral exploration, and is Past President of the Calgary Mineral Exploration Group.

Kyla Arden, M.Sc.
Project Geologist

Kyla joined Birch Mountain as a geologist in 1997. She graduated from the University of Manitoba in 1995 with a Masters degree in Geochemistry. She has considerable experience in geological mapping projects and in laboratory analysis. Kyla is a member of the Calgary Mineral Exploration Group.

Glen De Paoli, M.Sc. P.Geol.
Senior Project Geologist

Glen received a Masters degree in geology from the University of Calgary in 1994. He has been a consultant for 10 years, providing expertise in ore deposits and micro-analytical techniques to mineral exploration companies in British Columbia and Alberta, and to the Geological Survey of Canada. Glen is a member of the Calgary Mineral Exploration Group, and APEGGA.

William R. Hemstock, B.Sc.
Senior Technician

Bill has been with Birch Mountain since its inception as a private company in 1994. He has over 15 years of mineral exploration experience in managing airborne, waterborne, and ground-based geophysical projects. In addition, he spent five years in project management of forest inventory, and preparation of environmental impact statements.

Brett G. Johnson, B.Sc.
Exploration Geologist

Brett joined Birch Mountain after graduating from the University of North Dakota with a degree in Environmental Geology in 1996. He has exploration experience in Alberta, Manitoba, British Columbia, and the Yukon. Brett is a member of the Calgary Mineral Exploration Group.

Jane E. Quinn
Shareholder Services

Jane has been with Birch Mountain since its inception as a private company in 1994. Her business experience includes computer operations, office management, and administration management for a number of oil and gas, mapping, and land companies. Jane is a member of the Prospectors and Developers Association of Canada, the Canadian Institute of Investor Relations, and the Calgary Mineral Exploration Group.

Scott R.A. Rose, M.Sc.
Project Geologist

Scott joined Birch Mountain in early 1999 after receiving an M.Sc. in Geology and Geochemistry from the University of Calgary. His research focused on carbonate stratigraphy, geochemistry, and basin modelling of stratabound ore deposits. Scott has national and international field experience in mineral exploration, in Canada's Arctic Islands and Peru, South America. Scott is a member of the Calgary Mineral Exploration Group.

Technical Advisors & Consultants

Max Cooley

Max Cooley is a consultant in gold and precious metals fire assay, chemical analyses, and metallurgy. Prior to retirement, Max spent 11 years at Barrick Gold's Mercur Mine in Utah. Before this, he operated his own metallurgical research laboratory, participating in a wide variety of projects including process development and remedial treatment of mine and mill tailings. Max is a member of the Society of Mineral Analysts.

Jim Kozak, CMA
H. James Kozak, CMA Associates
Calgary, Alberta

Jim has 17 years' experience in corporate banking, 10 years in the natural resource industry, and 9 years in private accounting.

Jon Thorson, Ph.D.

Jon has more than 30 years of exploration experience in minerals and oil and gas, and specializes in sedimentary basin analysis. He is a member of the Society of Economic Geology, the Geologic Society of America, and the Northwest Mining Association.

Legg Mason Wood Walker, Inc.

Legg Mason Wood Walker, Inc. is the principal broker-dealer subsidiary of Legg Mason, Inc., a publicly traded holding company headquartered in Baltimore, Maryland. Legg Mason provides investment advisory, securities brokerage, investment banking, and related financial services through its wholly owned subsidiaries. Assets under management by Legg Mason, Inc. exceeded $104 billion at December 31, 1999.

Pincock Allen & Holt

Pincock Allen & Holt (PAH) is a world leader in international mineral resources consulting, providing a full range of engineering, environmental, and financial services to the mining industry worldwide since 1968. As a consultant to the international mining industry, PAH serves a broad client base that includes mining and exploration corporations, financial institutions, and foreign and domestic government agencies.

Strathcona Mineral Services

Strathcona Mineral Services Ltd. is an internationally renowned mining industry consultancy. Strathcona provides services ranging from review and monitoring of exploration programs and properties, to feasibility studies and audit of ore reserves and project valuations for financial, mergers & acquisitions, and prospectus requirements. Strathcona has served a wide variety of clients, including international banks and financial agencies, mining, and investment companies.

Corporate Data

	31 Dec. 1999	31 Mar. 2000
Common shares issued and outstanding	28,289,884	31,567,075
Outstanding common share options	2,795,600	2,580,000
Common shares via outstanding warrants	1,669,268	2,756,650
Fully diluted common shares	32,754,752	36,903,725
Escrowed common stock	3,411,348	3,411,348
Market float (estimate)	**25,000,000**	**25,000,000**

For more information on common shares, escrowed shares, and stock options, see note 9 in the Notes to the Financial Statements.

Capitalization & Share Distribution

December 31, 1999

Symbol	BMD
Exchange	Canadian Venture—CDNX
Shares outstanding	28,289,884
Fully diluted shares	32,754,752
52-week High	$2.10
52-week Low	$0.29
Market capitalization	$59.4 million

Head Office

3100–205 Fifth Avenue SW
Calgary, Alberta, Canada T2P 2V7
Tel: 403.262.1838
Fax: 403.263.9888

Contacts

Douglas Rowe, President & CEO
or Jane Quinn, Shareholder Services
e-mail: jquinn@birchmountain.com

For current information, visit:
www.birchmountain.com

- **Registrar and Transfer Agent**
  Montreal Trust Company
- **Bankers**
  Hong Kong Bank of Canada
- **Auditors**
  Barr Shelley Stuart
- **Solicitors**
  Armstrong Perkins Hudson
  Buchanan Ingersoll
  Donahue & Partners

Conversions

To Convert:	Multiply by:
Acres to hectares	0.405
Hectares to acres	2.47
A ton to a tonne	0.907
A tonne to a ton	1.1
Troy ounces to grams	31.1
Grams to troy ounces	0.032
Metres to feet	3.28
Kilometres to mile	0.62

Annual General and Special Meeting

3:30 pm, June 22, 2000
Calgary Chamber of Commerce
206–517 Centre Street South
Calgary, Alberta, Canada

Shareholders unable to attend the meeting are encouraged to complete and return a valid *Form of Proxy*, which is mailed to all shareholders of record before the meeting.

Design by Loreto Doyle & Birch Mountain Resources Ltd.
Production by Loreto Doyle.

B M D

BIRCH MOUNTAIN RESOURCES LTD.
3100, 205 FIFTH AVENUE S.W.
CALGARY ALBERTA CANADA T2P 2V7
TEL 403 262 1838 FAX 403 263 9888